No. 80-1104

IN THE

Supreme Court of the United States

OCTOBER TERM, 1980

STEWART-WARNER CORPORATION,

Petitioner,

—v.—

WESTERN ELECTRIC COMPANY, INCORPORATED,

Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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February 4, 1981

CORPORATE AFFILIATES

Western Electric Company, Incorporated is a wholly owned subsidiary of American Telephone and Telegraph Company ("AT&T"). AT&T is the parent company of the Bell System, which includes 21 principal telephone subsidiaries, two associated telephone companies in which AT&T does not have a controlling interest, Western Electric and Bell Telephone Laboratories, Incorporated. Bell Laboratories is owned one-half by Western Electric and one-half by AT&T.

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Nothing about this ordinary patent case warrants review by the Court. Stewart-Warner merely quarrels with or ignores concurrent findings of fact made below, and advances the same arguments found wanting by the court of appeals and the district court.

There are no special and important reasons for review by this Court on writ of certiorari. No decisions are in conflict and no question of obvious and exceptional error is presented. The courts below did not depart from the accepted and usual course of judicial proceedings. And there is no important question of federal law that should be settled by this Court. Stewart-Warner says nothing to the contrary. Respondent, Western Electric, therefore, opposes the Petition for Writ of Certiorari to the United States Court of Appeals for the Fourth Circuit.

OPINION BELOW

The opinion of the United States Court of Appeals for the Fourth Circuit is reported at 631 F.2d 333.

STATEMENT OF THE CASE

Western Electric ("Western") is the owner of a number of patents directed to semiconductors and their use in microelectronic circuits. Among these patents is one known as Derick-Frosch U.S. Patent No. 2,802,760 which issued in 1957 and expired in 1974. This patent covers a process of manufacturing silicon chips for use in semiconductor devices, such as transistors (Petition 3a). Western offered licenses under all its semiconductor patents to interested persons at an established royalty rate of 2½% of the price of finished or "housed" semiconductor devices sold by the licensee (Petition 14a-15a, 21a).

Western and Petitioner, Stewart-Warner Corporation ("Stewart-Warner"), opened discussions of a licensing arrangement under Western's patents in January 1964. Western initially offered Stewart-Warner a license under one or all its patents relating to semiconductors (Petition 4a). Discussion between the parties centered for a time on a license under all patents of Western relating to semiconductors at a royalty rate of 2½%. Western later offered to reduce the rate to 2% in return for a grant-back license under Stewart-Warner's patents. This offer was not accepted by Stewart-Warner (Petition 4a, 21a).

Stewart-Warner then requested a license under the Derick-Frosch patent alone. Western offered to license this patent by itself at a reduced royalty rate of 1½%, a reduction of 40% below the rate for a license under all patents of Western relating to semiconductors. This offer was not accepted by Stewart-Warner who in turn requested a further reduction in the royalty rate under the Derick-Frosch patent to 1% in return for a grant-back license to Western under Stewart-Warner's

patents (Petition 4a-5a, 21a-22a). Western would not agree to the latter proposal, as the court of appeals found, "because it feared that in the future Stewart-Warner might claim that Western coerced it into such a one-sided agreement" (Petition 5a). After much discussion the parties finally reached an impasse (Petition 5a, 22a). The Derick-Frosch patent expired in August 1974. Western sued Stewart-Warner in September 1975 seeking damages for past infringement of the Derick-Frosch patent.

Stewart-Warner defended the lawsuit on grounds that the Derick-Frosch patent was not infringed, was invalid, and was unenforceable because of Western's alleged misuse of the patent. Later Stewart-Warner conceded that it infringed the patent (Petition 3a, 18a).

The district court appointed a trial judge from the United States Court of Claims to serve as a special master (Petition 3a, 16a-17a). The case went to trial before the master on the issue of validity of the patent. The master ruled that the patent was valid, finding the invention to be "fundamental" to the semiconductor industry (Petition 3a, 36a, 41a). A second trial then took place on the issue of whether the patent was enforceable against Stewart-Warner based on the allegation that Western had misused the patent (Petition 3a). The master found that Western had not misused the patent, and held it enforceable against Stewart-Warner. Damages were assessed against Stewart-Warner in an amount of $314,109.27, plus interest (Petition 47a). The district court adopted the master's findings and conclusions after careful study (Petition 3a, 16a).

Stewart-Warner appealed the district court's order on enforceability and damages to the court of appeals. That court unanimously affirmed the district court's order (Petition 15a).

REASONS FOR DENYING THE WRIT

This case involves a patent that has been held by the special master, the district court, and the court of appeals to be enforceable against Stewart-Warner.

The decision below is unexceptional and is of interest only to the parties to this lawsuit. It requires Stewart-Warner to pay damages of $314,109.27, plus interest, in order to compensate Western for use of an important invention. The patent expired more than six years ago, and Western did not seek injunctive relief. All litigation over the patent, except this case, is terminated, and the statute of limitations to seek damages for past infringement has passed. No conflict exists between the decision of the court below and another court of appeals, or with a decision of this Court, and the Petition points to none.

Two questions are presented by Stewart-Warner, and each is factual in character requiring this Court's review of the evidence below. Neither question involves special and important reasons for review on writ of certiorari, as required by Supreme Court Rule 17.1.

Stewart-Warner first contends that the court of appeals ruled incorrectly when it did not find patent misuse for Western's refusal to accept Stewart-Warner's offer of a grant-back license in return for a further reduction in the royalty rate below 1½%. In short, by refusing the offer, Western is said to have coerced Stewart-Warner in an attempt to license a package of patents. But surely Western was not obliged to buy a license under Stewart-Warner's patents, and to pay for it by reducing the royalty income to which it was otherwise entitled. It was enough that Western offered Stewart-Warner a viable economic alternative. Western, moreover, had a legitimate basis for fearing a charge of coercion by Stewart-Warner if it entered such an agreement, as the courts below found (Petition 5a, 22a).

The arguments advanced here by Stewart-Warner were the same as those made to the court of appeals. In upholding the

lower court's finding that Western did not misuse its patent, the court of appeals reasoned:

> We think the above contention as to misuse by Stewart-Warner is not well taken. This is not a case in which Western refused to grant Stewart-Warner any license other than a license of a package of patents, as in *American Securit Co.* v. *Shatter-proof Glass Corp.*, 268 F.2d 769 (3d Cir. 1959). Here, Western would not take a grant-back license so as to lower the cash royalties to be paid by Stewart-Warner. The fact that Stewart-Warner would have preferred to pay less cash, with the balance payable by a grant-back of a license to operate under its patents, is insufficient to make out a case of coercive package licensing. In order to prevail on this claim, Stewart-Warner must have shown that Western did not give it a choice to take a license under the Derick-Frosch patent alone or in combination with other patents on reasonable terms. *Well Surveys, Inc.* v. *Perfo-Log, Inc.*, 396 F.2d 15 (10th Cir. 1968). Stewart-Warner has not made such a showing. It is undisputed that Western gave it the choice to take the Derick-Frosch patent alone at one rate of royalty or a combination of the Derick-Frosch patent with other patents at different royalty rates. As Well Surveys teaches, "freedom of choice is the controlling question," p. 18. This makes important the finding of the district court that "viable economic alternatives were made available to Stewart-Warner by Western through the application of its royalty reduction formula." Stewart-Warner has not shown this finding to be clearly erroneous. (Petition 10a)*

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* This Court's decision in *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637 (1947), and *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.*, 339 U.S. 827 (1950), cited incidentally by Stewart-Warner on the issue of coercion (Petition 21), can at best be said to stand for the proposition that coercion is a factor to be considered in determining the lawfulness of a grant-back and a package license. Western does not dispute such a reading of the cases, although *Automatic Radio* does not even mention coercion. Here, the court below focused on the issue of coercion and concluded that Stewart-

It is also argued that Western's conduct amounts to discrimination against Stewart-Warner in violation of a consent decree entered in an earlier case between Western and the government. The Court of Appeals found that Western did not discriminate against Stewart-Warner:

> We also do not think Western was shown to have violated the 1956 decree of the district court in New Jersey. Stewart-Warner has not shown that it was treated any differently from any other potential licensee. The evidence showed that Western had never given a grant-back reduction when a single patent was licensed. In fact, the record shows that no one had ever sought the licensing arrangement Stewart-Warner proposed. It has not shown that Western granted the terms it sought to someone else and then refused to extend those same terms to Stewart-Warner. The 1956 decree does not require that all licensees be treated exactly the same, only that they not be discriminated against. The finding of no discrimination of the district court is amply supported by the record. (Petition 11a)

The courts below correctly found the facts on both issues, and followed well recognized precedent in ruling that Western's conduct did not amount to patent misuse. See, *Well Surveys, Inc.* v. *Perfo-Log, Inc.*, 396 F.2d 15, 18 (10th Cir. 1968); *Hazeltine Research, Inc.* v. *Zenith Radio Corporation*, 388 F.2d 25, 34 (7th Cir. 1967), *modified on other grounds*, 395 U.S. 100 (1969); *Mobil Oil Corporation* v. *W. R. Grace & Co.*, 367 F.Supp. 207, 250 (D.Conn. 1973); *North American Philips Co.* v. *Stewart Engineering Co.*, 319 F.Supp. 335, 350 (N.D. Cal. 1970).

Stewart-Warner's reliance on *Prestole Corp.* v. *Tinnerman Products, Inc.*, 271 F.2d 146 (6th Cir. 1959), is wide of the

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Warner failed "to make out a case of coercive package licensing" (Petition 10a). The lower court's decision therefore is not in conflict with these cases.

mark. That case did not involve package licensing, or discriminatory licensing at different royalty rates or under a consent decree. The court ruled that technical assistance given by a patent owner to one licensee was a breach of a "most favored licensee" provision in a license contract since it did not give the same assistance to a second licensee (*id.* at 149-154). The patent misuse found by the court concerned a restriction in the license that prevented the licensee from manufacturing a product described in an expired patent (*id.* at 154-156). Similarly, *Carter-Wallace, Inc.* v. *United States*, 449 F.2d 1374 (Ct. Cl. 1971), lends no support to Stewart-Warner's argument. That case involved a claim of patent misuse by the government based on a patent owner's sale of a patented drug to two firms at a price substantially below its sale price to all other purchasers. The court denied the patent owner's motion for summary judgment because the defense raised a "triable issue" of fact and so the government was given the opportunity "to go forward" and "to pursue the matter further" through discovery (*id.* at 1387, 1388). The court intimated "no views at all on the merits of the defense" (*id.* at 1388). The *Carter-Wallace* case did not involve package licensing or an offer of licenses under one or more patents at different royalty rates. Stewart-Warner, moreover, has had its chance "to go forward" and "to pursue the matter" but has failed to persuade the lower courts that the misuse defense has merit. Neither *Prestole* nor *Carter-Wallace* is in conflict with the court of appeals' ruling against Stewart-Warner.

The remaining cases cited by Stewart-Warner on the issue of discrimination, *Laitram Corp.* v. *King Crab, Inc.*, 245 F.Supp. 1019 (D. Alaska 1965), and *Peelers Co.* v. *Wendt*, 260 F.Supp. 193 (W.D. Wash. 1966), are even further from the point. Both cases involve the same practice found to be discriminatory. There, the patent owner leased patented machines for use in peeling shrimp to producers in the Northwest at twice the rental rate charged producers on the Gulf Coast. The *Laitram* court decided that the patentee's practice of charging a "double leasing rate was discriminatory and resulted in an unfair com-

petitive disadvantage to shrimp producers in the Northwest and Alaska", and thus amounted to patent misuse (*id.* at 1021). In the *Peelers* case there was a preponderance of evidence that the "unequal" leasing rates "caused substantial impairment of competition" (*id.* at 197). Here, Western offered all interested persons one royalty rate for a license under several patents and a substantially lower royalty rate for a license under a single patent. Stewart-Warner did not present any evidence below (nor can it make any claim here) that Western's licensing impaired competition or placed Stewart-Warner at a competitive disadvantage. Those cases therefore differ materially on the facts and the law applied, and are not in conflict with the decision below.

Stewart-Warner argued before the court of appeals, but not in the Petition, that this Court's decision in *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969) was controlling. The court of appeals found that Stewart-Warner's reliance on this case was "misplaced":

> Stewart-Warner's reliance upon *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969), is misplaced. Hazeltine's licensing agreements required licensees to pay a royalty rate based on final sales of products that might not have used any of Hazeltine's patents. The Court held that conditioning the granting of licenses upon royalty payment on products which do not use the patent licenses amounted to patent misuse. It was not the royalty based upon a finished product that concerned the Court, but, instead, the requirement that Zenith pay royalties on all of its products manufactured whether Hazeltine's patents were used or not. Such is not the case here. All of the housed semiconductors at issue make use of the Derick-Frosch patent. In fact, Western's standard package licensing provides for the payment of royalties only on those products which include an invention owned by Western. (Petition 12a).

Stewart-Warner next contends that since the patent covers a process of making silicon chips, the royalty base should have been the chip rather than a finished or housed semiconductor device. But this argument overlooks an alternative holding of the courts below that the measure of damages was properly based on an established royalty (Petition 14a-15a). An established royalty does not depend on the entire market rule urged by Stewart-Warner. The court of appeals was clearly correct in upholding the lower court's assessment of damages to be the established royalty.

Putting to one side the alternative holding, the court of appeals found that each chip, which is manufactured in accordance with the patented process, is connected to electrical leads and placed in a plastic housing (Petition 12a-13a). The housed device was found by the court of appeals to be an appropriate base on which to charge a royalty because "substantially all the market value of the device was derived from the chip itself, not the leads or the plastic enclosure" (Petition 13a). Convenience was an added feature of the housed device because of its "easily identifiable market value", while the chip was "not a regularly marketed product" (Petition 13a).

It was also found by the court of appeals that "Stewart-Warner's infringement occurred within the United States" by manufacture of the chip (Petition 14a). The fact that some of the chips might have been housed outside the United States by a bailee of Stewart-Warner, and then returned to Stewart-Warner in the United States, did not detract from the appropriateness of including "these devices in the final measure of damages" (Petition 14a). The value of the housed device was found to be " 'primarily, if not entirely', derived from the chip itself" (Petition 15a).

The appropriate royalty base, the relationship between the chip and the housed device, the value attributable to the chip, and the economic viability of the alternative license offered by Western at 1½% royalty, are factual matters which were correctly decided by the courts below. The lower courts' decisions were based on well recognized precedent.

The relief sought by the Petition would require this Court to review concurrent findings of the special master, the district court and a unanimous court of appeals, and to reappraise the testimony of various fact and expert witnesses. Such questions which challenge concurrent findings of the courts below are inappropriate for review on a petition for writ of certiorari in patent cases.

> A court of law, such as this Court is, rather than a court for correction of errors in fact finding, cannot undertake to review concurrent findings of fact by two courts below in the absence of a very obvious and exceptional showing of error." *Graver Tank & Mfg. Co.* v. *Linde Air Products Co.*, 336 U.S. 271, 275 (1949), adhered to on rehearing, 339 U.S. 605 (1950).

CONCLUSION

Stewart-Warner asks this Court to make a fourth review of the lengthy trial record to see if it can find what the master and two previous courts were unable to find—proof of patent misuse and an improper base on which to charge a royalty. This Court has ruled that such factual scrutiny is not a task to be served by a grant of certiorari: "The jurisdiction" to bring up cases by certiorari "was not conferred upon this Court merely to give the defeated party in the Circuit Court of Appeals another hearing." *Magnum Import Co.* v. *Coty,* 262 U.S. 159, 163 (1923). Certiorari, therefore, should be denied.

Respectfully Submitted,

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